



Purchase and Assumption Transactions

-The Taiwan Experience

Howard N.H. Wang

President

Central Deposit Insurance Corporation, Taiwan

June 2012



Contents

- § Overview of Taiwan's bank resolution experience & mechanism
- § The details on Purchase & Assumption transactions
- § Conclusion





Taiwan's Bank Resolution Experience

§ Before deposit insurance system in place:

- Policy/administrative direction and persuasion by the government
- Government-owned bank as the 1st choice of the acquirer

§ In the period of voluntary DIS 1985-1999:

- Non-members of CDIC:
 - Assumed through government administrative persuasion; acquirers assumed the loss
- Members of CDIC: Handled according to the *Deposit Insurance Act*; no failure cases during this period

§ In the period of compulsory DIS in 1999 ~ 2001:

- CDIC provided financial assistance for purchase and assumption after 1999

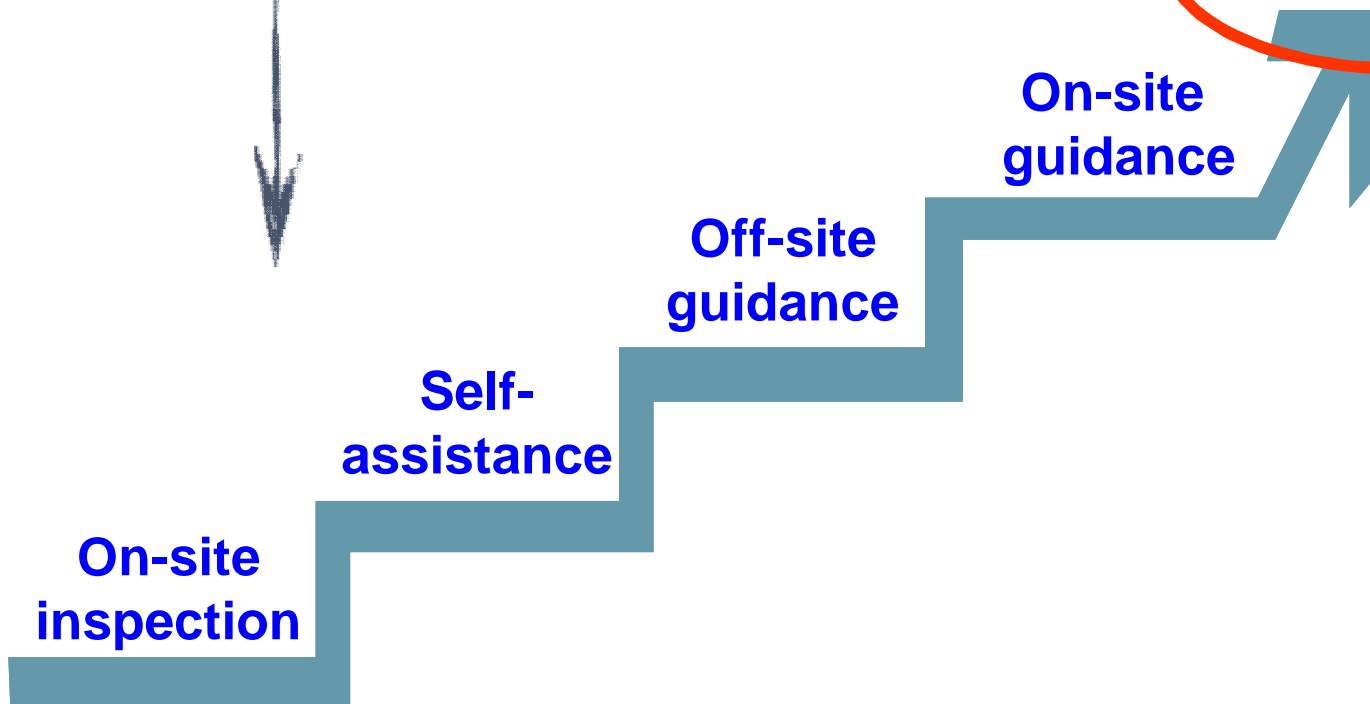
§ No market mechanism before 2001





Early Banking Resolution

Ongoing Risk Management



Conservatorship





Early Banking Resolution - Conservatorship

Banking Act
amended in Dec. 2008:
PCA mechanism

Standard for market withdrawal:
Capital adequacy (BIS) ratio

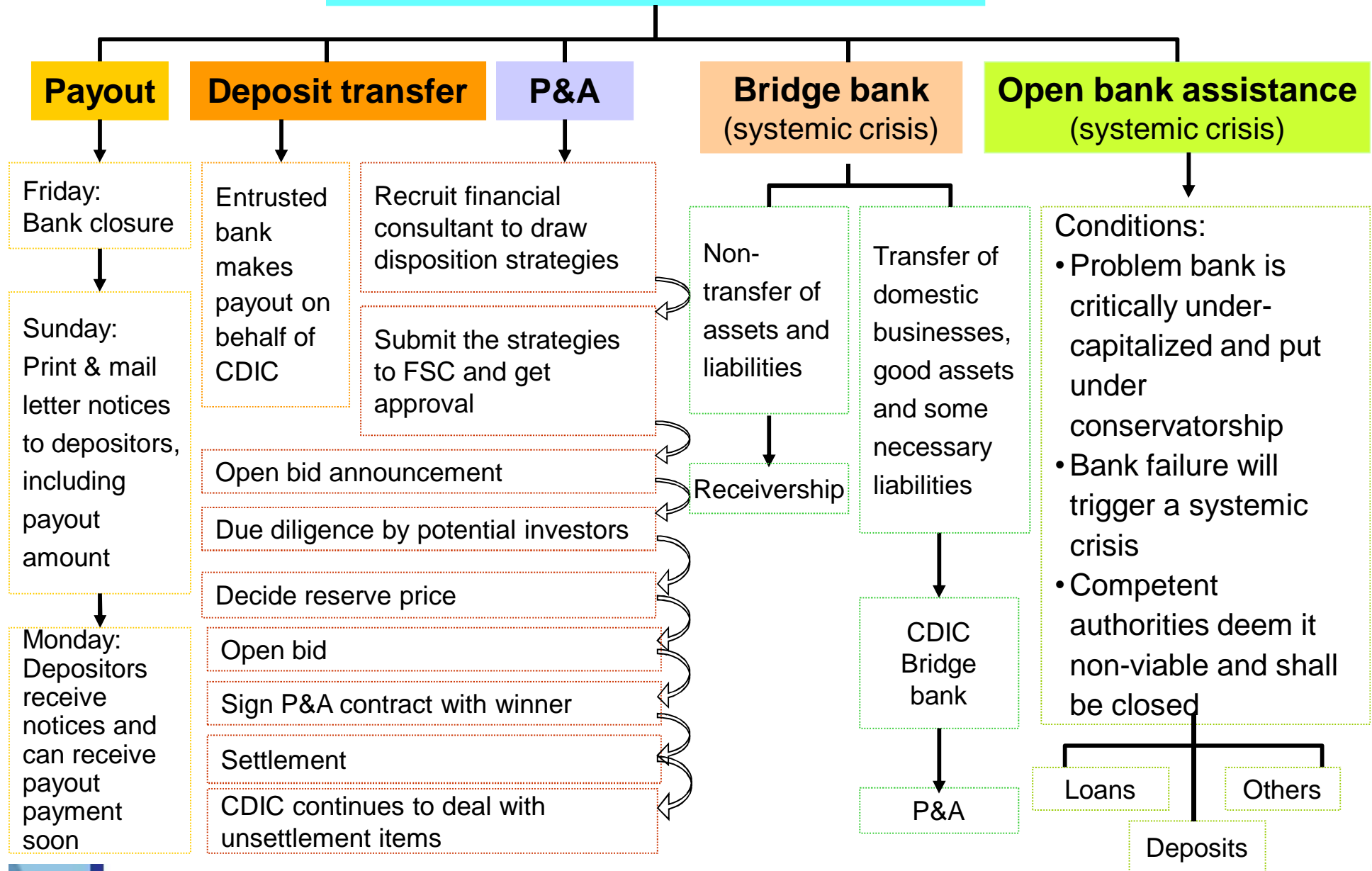
If BIS ratio < 2%,
the bank to be put under
conservatorship within 90 days

Banking Act
Bank should also be
taken over

In case a bank:

- Is unable to pay its liabilities and could harm depositors' interests; or
- Has losses exceeding 1/3 of capital and bank cannot make improvement within the stipulated timeframe

Resolution Methods





Type of P & A

Year	Banks	Credit Coop.	Credit departments of farmers' & fishermen's associations	Methods
1999		1		Whole bank P&A
2001		7	29	Whole bank P&A
2002		1	7	Whole bank P&A
2004	1	1		Whole bank P&A and Partial P&A
2005	1		1	Whole bank P&A and Partial P&A
2007	3		1	Whole bank P&A and Partial P&A
2008	3			Partial P&A and P&A with put back option
2010	1			Partial P&A
Subtotal	9	10	38	
Total	57			

As of June 2012



Benefits of P & A

§ Benefits

- For a failed bank and its depositors
 - Financial services of a failed bank less interrupted compared to a payout
- For a deposit insurer
 - Reduce cash outlay
 - Meet least cost principle in most cases
 - Preserve confidence in financial system
- For an acquiring financial institution
 - A great opportunity for expanding its business and market share



Considerations of P & A

§ Considerations

- No suitable buyers
- Dilemma:

Fast disposition without optimizing asset values

VS.



Maximization of asset recovery



General Procedures of Conducting P&As

§ Outsourcing services of professional financial and legal consultants

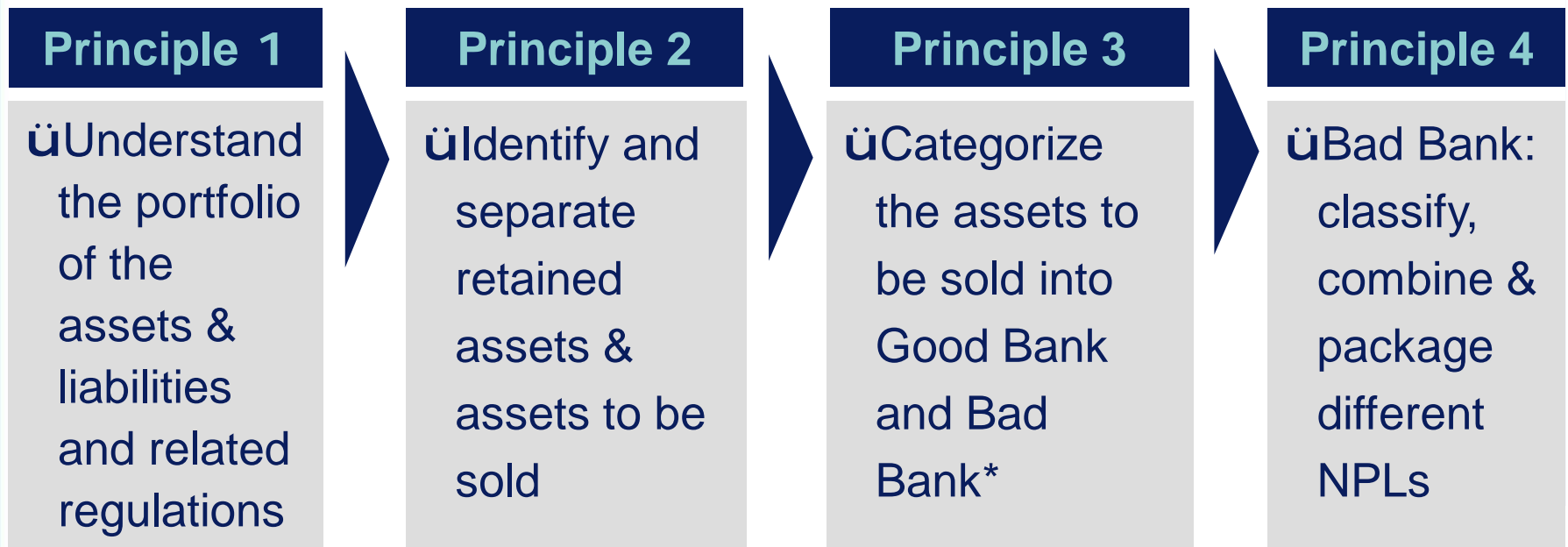
- Disposition plans
- Assets & liabilities valuation
- Open bidding processes
- Due diligence
- Real estate appraisals
- Legal issues, tax planning and employee settlement plans





Principles of Designing Transactions

Objective: To maximize the successful rates of open bids through well-designed package of the assets, liabilities and operations



* “Good Bank” includes assets and liabilities, excluding NPLs and retained items
“Bad Bank” consists of NPLs and certain real estate



Providing Incentives

§ Provide incentives to entice potential buyers

- Branches relocation without any restrictions
- Upgrade branches offering only deposit and withdraw services to full function branches
- If BIS < 8% after merge, acquiring bank is allowed to meet the min. 8% BIS ratio with a grace period



Buyers Qualification: Good Bank

§ Types of buyers

- Domestic & foreign Banks
- Domestic & foreign financial holding companies without banks
- Other legal entities under *Company Law* w/certain financial strength and with capacity of running a bank

§ Financial strength

- **Total asset value** should reach NT\$150billion (US\$5 billion)

ÿ Net book value

- Banks should exceed NT\$10billion (US\$ 333 million)
- Financial holding companies should exceed NT\$ 20 billion (US\$666 million)

ÿ **BIS ratio** should maintain at 8% or above



Buyers Qualification: Bad Bank

§ Types of buyers

• Domestic or foreign asset management companies

(Article 15 of *the Financial Institutions Merger Act*)

• No any illegal records

• CDIC reserves the rights to reject any buyers to participate in open bid





Appraisal Procedure

Financial consultants appraise the value of the problem banks as reference



CDIC reviews the appraisal provided by financial consultants

Appraisal Subcommittee reviews the appraisal

Final price decided by an open bid



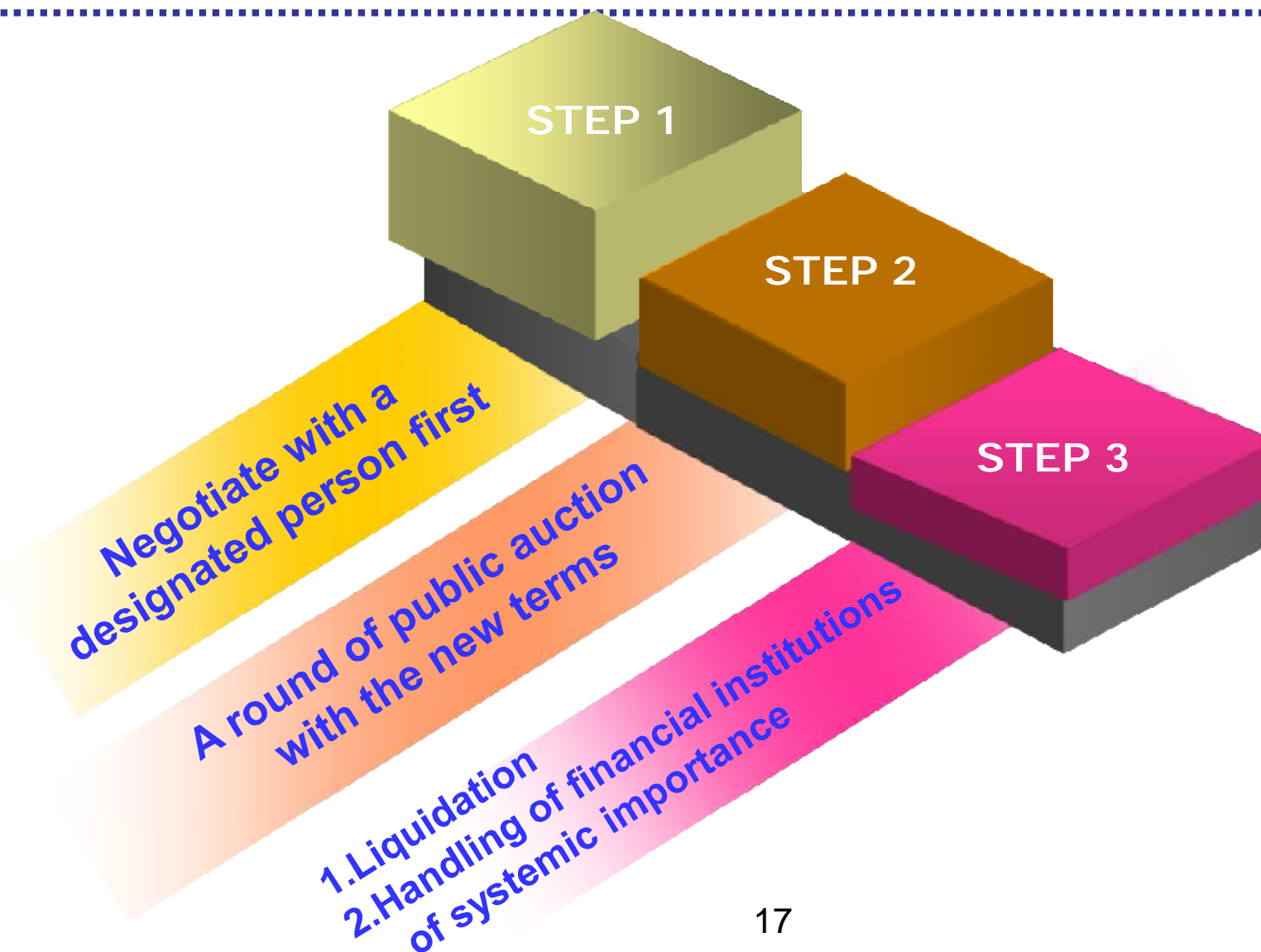


Timelines for Purchase & Assumption

Date		
		Issuing conservatorship order by the competent authority
D + 30 days		Outsourcing professional firms
D + 90 days		Advising on disposition strategies & submitting to competent authorities for approval
D + 120 days		Public announcement of an open bid for Good Bank & Bad Bank
D + 145 days		Potential buyers start conducting due diligence
D + 175 days		Submitting the required document for bid qualification review & the last day for conducting due diligence
D + 182 days		Submission of bid bond
D + 183 days		Bid date
D + 185 days		Contract signing date
D + 276 days		Assets and liabilities transferred date



Procedures after a Failed Open Bid





Key to Facilitate P&A – External Factors

- § Overall economic and financial market conditions need to be considered**
- § Benign economic and financial conditions would greatly increase the success rate of P&A transactions**



Key to Facilitate P&A – Internal Factors (I)

- § Flexibility**
- § Well-designed disposition plan**
- § Reserve price determination in the “Good Bank” and the “Bad Bank” transactions**
- § Flexibility and adaptability to market needs**



Key to Facilitate P&A – Internal Factors (II)

§ Incentives





Key to Facilitate P&A – Internal Factors (III)

§ Employees' rights and interests

- To give a pension and severance pay to the employees according to the *Labor Standards Law*
- To request the investor to rehire more than 50% of the employees for at least one year
- To convince the investor to compensate for employees' losses caused by the severance of their working years



Key to Facilitate P&A – Internal Factors (IV)

n A fair appraisal of problem financial institutions – clear procedures

- **Decide the fair value**
- **Set up the reserve price**



Key Challenges - Cross Border Issues

§ Lesson learned



Y Close coordination with financial safety net players in other countries

- CDIC took over one problem bank with overseas branches in 2008
- 1st resolution case in Taiwan involving cross border issues

**During
handling
process**

CDIC with FSC kept communicating with financial supervisors of the other country

Finally

Overseas branches were sold successfully by an open bid



Key Challenges – Retained Assets

Hillside land



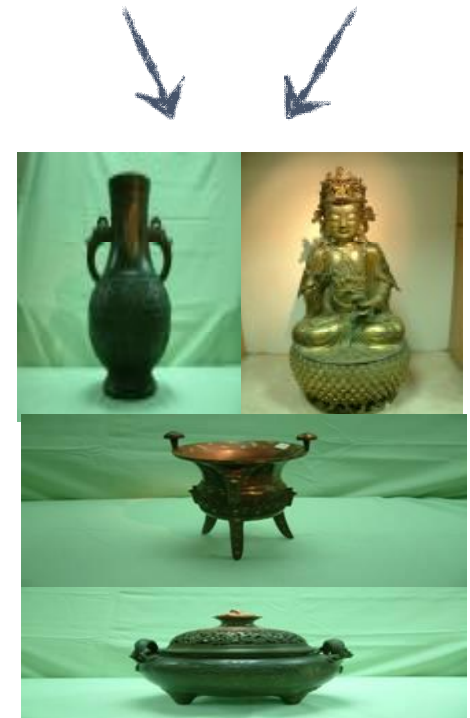
Hote
I



Taipei 101



Chinese
antiques

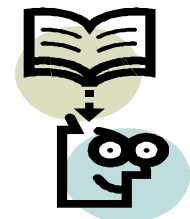


Ultimate goal: sell off assets as quickly as possible



Conclusion

- § Understand market needs
- § Utilize various P&A techniques
- § Follow sound and transparent policies and procedures
- § Provide incentives to potential buyers
- § Pay attention to employees' rights and interests





Thank You!

cdic@cdic.gov.tw